

**NORTHEAST UTILITIES
SPENT FUEL TRUST
INVESTMENT POLICY
DRAFT**

OBJECTIVES

The objective of the investment policy of the Northeast Utilities Spent Fuel Trust is to provide guidelines that enable the Trust to achieve as high a level of investment return as is consistent with the preservation of capital and maintenance of liquidity. The Investment Manager will construct and manage a diversified portfolio that meets this objective. The Investment Manager will be measured against a benchmark of 50% Salomon Brothers 3-month Treasury Bill return index and 50% Salomon 1-3 Government/Corporate Bond index; the manager will also be expected to achieve a rate of return in excess of the first-day-of-the-month 3-month Treasury Bill return as charged to the company by the Department of Energy (DOE) for the company's Prior Spent Fuel Trust liability for three-month periods beginning February, May, August and November (the Liability). This investment policy is designed to limit the risk of under-performing the interest rate charged by the DOE in any three-month period.

INVESTMENT GUIDELINES

1. Approved Instruments

The following fixed income instruments are considered appropriate for the portfolio:

- a. U.S. Government and Agency securities.
- b. Money market instruments; repurchase agreements, commercial paper, certificates of deposit, bank obligations, Eurodollar certificates of deposit, and approved money market funds.
- c. High Quality Corporate bonds, including Eurodollar issues of U.S. corporations, and U.S. dollar denominated issues of foreign corporations.
- d. Municipal securities
- e. Floating rate securities without interest rate caps.
- f. Asset-backed securities.
- g. Foreign government and provincial securities, and securities of international agencies that are U.S. dollar denominated.
- h. Mortgage-backed securities, including collateralized mortgage obligations (CMOs).

2. Quality

Individual holdings of commercial paper must be rated A-1, P-1, or better, by either Standard and Poor's Corporation ("S&P") or Moody's Investor Services ("Moody's") at the time of purchase.

Securities of Issuers with a long-term credit rating must be rated at least A-/A3 by Standard & Poor's or Moody's, respectively. If a security held in the portfolio is downgraded by S&P or Moody's below the minimum rating specified above, the Investment Manager will notify the Company within 5 business days of the downgrade.

3. **Diversification**

Securities of a single issuer, valued at cost at the time of purchase, should not exceed 2 1/2% of the market value of the portfolio or \$5 million, whichever is smaller. Corporate securities (excluding commercial paper) of a single industry sector, and Mortgage Backed Securities, valued at cost at the time of purchase, should generally not exceed 25% of the market value of the portfolio.

For purposes of this diversification policy, securities of a parent company and its subsidiaries will always be combined except for captive finance companies. Such captives will be included with their parent company only if their primary purpose is to finance the parent's business. Securities issued by the U.S. Treasury and U.S. Government Agencies are specifically exempted from these restrictions.

4. **Marketability/Liquidity**

The Investment Manager shall purchase liquid securities that regularly trade in a secondary market under normal conditions. The Investment Manager shall also structure the portfolio so that securities mature as needed to meet anticipated liquidity demands.

5. **Maturity/Portfolio Duration**

The portfolio's average duration shall be no longer than that of the Salomon Brothers 1-3 Year Government/Corporate Index. In addition, the final maturity or put date of each security within the portfolio shall not exceed three years. In the case of securities with regularly scheduled principal repayments (i.e. asset- and mortgage-backed securities) the average life of the security at the time of purchase shall be no more than five years.

6. **Performance Measurement**

The Investment Manager will meet with the Director – Investment Management no less than annually and will be available for regular telephone contact. Monthly, the Investment Manager will provide statements of transactions and market valuation of portfolio assets. Quarterly, the Investment Manager will provide the Company with a review of its performance relative to the benchmarks specified above.

7. **Restricted Investments**

Private placements are prohibited except for 144a issues with registration rights. Futures contracts and options shall be used for bona fide hedging or risk management purposes only. Securities of any affiliates of Northeast Utilities or any other owner of nuclear power plants is prohibited

Exceptions to this Investment Policy are prohibited without the prior approval of the Director – Investment Management

Approved by: _____

Signature: _____

Title: _____

Date: _____